

ISSUE

Is the organization described below, which otherwise qualifies for exemption from federal income tax as a cooperative hospital service organization described in section 501(e) of the Internal Revenue Code, operated solely to perform the service of 'purchasing' within the meaning of section 501(e) (1) (A)?

FACTS

The organization buys hospital equipment from suppliers when requested to do so by one or more of its patron hospitals that constitute its governing body and operate it on a cooperative basis. However, it holds legal title to the equipment while a patron hospital, which as the equitable owner of the equipment, pays the principal and interest payments on the equipment. Such payments are transmitted to a commercial lender whose funds were used by the organization to finance the buying of the equipment. Each patron hospital makes payments only on the equipment it is buying.

LAW AND ANALYSIS

Section 501(e) of the Code defines a cooperative hospital service organization, and treats it as described in section 501(c) (3) for purposes of exemption from federal income tax under section 501(a).

Section 501(e) (1) (A) of the Code provides that a cooperative hospital service organization may perform on a centralized basis the service of 'purchasing' which, if performed by a hospital exempt from federal income tax under section 501(c) (3), would constitute performance of the hospital's exempt purpose.

Although the organization described above holds legal title to the equipment it purchases for its patron hospitals, that arrangement is used merely as a convenience to its patron hospitals that are the beneficial owners of and solely responsible for paying for the equipment.

HOLDING

The organization described above is operated solely to perform the service of 'purchasing' within the meaning of section 501(e) (1) (A) of the Code and, because it otherwise qualifies as a cooperative hospital service organization described in section 501(e), is exempt from federal income tax under section 501(a).

APPLICATION INSTRUCTIONS

Even though an organization considers itself within the scope of this revenue ruling, it must file an application on Form 1023,

Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(e) of the Code. See section 1.501(a)--1 of the Income Tax Regulations. In accordance with the instructions to Form 1023, the application should be filed with the District Director of Internal Revenue for the key district indicated therein.